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SUBJECT: CONSUL GENERAL'S MEETINGS WITH JIANGSU PARTY SECRETARY LIANG BAOHUA AND GOVERNOR LUO ZHIJUN

CLASSIFIED BY: Kenneth Jarrett, Consul General, U.S. Consulate Shanghai, Department of State.

REASON: 1.4 (b), (d)

¶11. (C) Summary: In separate meetings with the Consul General (CG) on July 30, Jiangsu Party Secretary Liang Baohua and Governor Luo Zhijun expressed their appreciation for the CG's efforts to increase ties between Jiangsu Province and the United States. Like Nanjing municipal officials (see reftel), they noted that the U.S. economic slowdown is having a negative impact on Jiangsu's economy. Although Jiangsu's exports have slowed down, it is not suffering as much as other provinces because it produces higher value goods. According to Party Secretary Liang, the final collapse of the proposed Carlyle-Xugong deal will not affect how foreigners perceive the investment climate in Jiangsu. Party Secretary Liang also noted that the establishment of high-speed rails between Nanjing, Hangzhou and Shanghai will further Yangtze River Delta (YRD) integration. Both Party Secretary Liang and Governor Luo voiced their commitment to protecting IPR. End Summary.

Party Secretary Liang Welcomes More Cooperation

¶12. (SBU) During the CG's July 30-31 trip to Nanjing, Party Secretary Liang Baohua hosted a dinner in CG's honor. Liang expressed appreciation for the CG's efforts to increase ties between Jiangsu and the United States. Liang welcomed more exchanges and cooperation in the future between Jiangsu and the United States, and he expressed strong support for the provinces ties with New York State.

Jiangsu's Economy: Doing Better Than Zhejiang

¶13. (SBU) Echoing Nanjing Municipal authorities in their meetings with CG (see reftel), Party Secretary Liang said that the U.S. economic slowdown is having a negative impact on Jiangsu. In particular the appreciation of the RMB against the dollar is moving too quickly and the rise in labor costs are making it very difficult for Jiangsu companies, especially SOEs, to make a profit. However, Jiangsu is doing better than other provinces such as Zhejiang. Factories in Jiangsu produce high-value products which are not as impacted as much by the U.S. economic slowdown. In fact, Jiangsu's exports to the United States are still growing, but just at a slower rate.

Investment Climate Not Affected by Carlyle-Xugong Deal

¶4. (SBU) When asked about the final collapse of the Carlyle-Xugong deal, Liang said that the incident should not have an impact on how foreigners perceive the investment climate in Jiangsu. (Note: In October 2005, Carlyle had signed agreements with Xugong, the largest construction company in China, that would enable it to acquire 85 percent of the company. The deal sparked strong criticism from some quarters within China that a foreign company would have control of a Chinese company in a key industry. After protracted negotiations, including Carlyle's agreement to lower their ownership share, both Carlyle and Xugong abandoned the deal on July 23. End Note.) Xugong is now trying to raise money on its own said Liang. At the same time, Carlyle is still actively trying to invest in Chinese companies in Jiangsu and is interested in a company in Yangzhou. He praised Carlyle for being very smart and having an uncanny ability to identify good companies with a high likelihood to grow.

¶5. (SBU) Liang added that the United States also places limits on foreign investment. He recalled then Jiangsu Party Secretary Li Yuanchao's failed effort to purchase helicopters from the United States. Liang complained about the U.S.'s excessively strict export controls, which he said contributed to the bilateral trade deficit. The CG said that all countries have national security considerations that require the use of export controls. The U.S. export controls are routinely reviewed and prevent only a small percentage of goods from being sold. The amount of trade subject to export controls is very small and has little impact on the trade deficit.

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IPR Protection: Good For Jiangsu

¶6. (SBU) Liang assured CG that the Jiangsu Government is committed to IPR protection. Jiangsu not only has programs with the United States, but also held a program with the Japanese government last year. He added that the Jiangsu Government knows that IPR protection is an important aspect of development. It is taking measures in this area not just because of foreign pressure.

Yangtze River Delta Integration

¶7. (SBU) Liang spoke positively about YRD integration, noting efforts to connect Shanghai, Nanjing, and Hangzhou by high-speed rail. In the future, it will only take an hour to travel by rail between the three cities. Liang said there should not be any competition between the three provinces and claimed that the three provinces will just divide their responsibilities. Shanghai will develop its "four centers" (international economic, financial, trade and logistics), while Jiangsu and Zhejiang will concentrate in other areas.

Governor Luo Zhijun: Exports, IPR, and Education

¶8. (SBU) At an earlier meeting, Luo Zhijun also thanked CG for his efforts to foster ties between the United States and Jiangsu. Like Liang, he noted the negative impact of the U.S. economic slowdown on Jiangsu province. He also said that although Jiangsu's exports had decreased, the decrease was minor because Jiangsu produced higher value goods. He added that trade between the United States and Jiangsu is now in balance and there was no longer a trade deficit. (Note: During a separate meeting at Jiangsu CIQ, CIQ officials said that the current provincial rate of growth of both exports and imports to the United States is 5.2 percent. It is likely that this is what Luo was referring to when he said that the U.S.-Jiangsu economy is now balanced. End Note.)

¶9. (SBU) Like Liang, Luo also expressed his commitment to IPR

protection. He promised that Jiangsu would do its best in this area. Using Microsoft as an example, he said Jiangsu must protect IPR to maintain and attract foreign investment.

¶10. (SBU) According to Luo, the Provincial Government is paying a great deal of attention to the structure of the economy as part of an effort to promote continued growth. One area for attention is university education. Jiangsu wants to further develop and internationalize its universities. To this end, it welcomes the University of Arizona's plans to open an American-style university in Jiangsu. The Hopkins-Nanjing Center is another positive example and demonstrates Jiangsu's early commitment to innovation in education. Luo said that the Provincial Government is also urging universities and private enterprises to have more cooperation. He noted that in many countries universities and private enterprises have very deep and extensive cooperation. He believes that more of this cooperation will be helpful in Jiangsu's development.

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